FY 01 General Fund
and Transportation Fund
Budget Projections

November 8, 2000

Connecticut General Assembly
Office of Fiscal Analysis

Report Highlights

- **FY 01 General Fund surplus** has grown by $499.5 million from the $.5 million originally budgeted to **$500 million.** See **pages 3 – 15** for details.

- **FY 01 Transportation Fund operating surplus** has grown by $3.9 million from the $39.6 million originally budgeted to **$43.5 million.** See **pages 16 – 19** for details.

FY 01 General Fund and Transportation Fund Budget Projections

(as of November 8, 2000)

I. General Fund

Our projections for the fiscal year ending June 30, 2001 indicate the **potential net surplus has grown** by $499.5 million from the $.5 million originally budgeted **to $500 million** (which represents 4.4% of the original budget). The $499.5 million increase is based on revised **estimated revenues** that **are $624.2 million above the budget act estimates** and **estimated expenditures** that **are $124.7 million higher than original net appropriations.** While the projected General Fund surplus is $500 million, **there is a potential for reductions to this estimate to the degree that certain account balances, that would otherwise lapse, are authorized to be carried forward into FY 02.**

Revenues

A net increase in General Fund revenue of $624.2 million results primarily from increases in (1) personal income tax, (2) sales and use tax, (3) corporation tax, and (4) federal grants.

(1) The **income tax** is up $350.3 million (including the impact of an increase in refunds). The following table presents the adjustments made to the four components of the income tax estimate.

Component	Budget Act Estimates	November Estimates	Amount of Change
Withholding	$2,904.8	$2,941.8	$37.0
Estimated Payments	802.6	932.6	130.0
Final Payments	445.0	666.0	221.0
Refunds	(494.3)	(532.0)	(37.7)
		Total Change	**$350.3**

Increases from the budget plan estimate are due to the following factors:

a) Withholding taxes through October have exceeded budget act estimates: collections grew at 11% while the budget plan projected 6.4% growth. Collections have been revised upward by $37 million to reflect this. The estimate has only been adjusted to reflect higher collections through the end of the 2000 income year since this level of growth is not anticipated to carry into the 2001 income year due to the state's tight labor market, which translates into slower employment growth and lower growth in withholding taxes.

b) Revenue from estimated payments was stronger than anticipated. Second estimates (due in June) and third estimates (due in September) grew by 13.5% and 19.9% respectively, which exceeded budget plan estimates by approximately $50 million. Therefore, total collections for FY 01 are expected to exceed budget plan estimates by $130.0 million. The increase in estimated payments is probably due to the realization of capital gains from the sale of stocks where investors had taken gains accrued from the appreciation of stocks over the last 3 to 5 years. Since the level of realizations is not expected to continue in the 2001 income year, the estimated payments due in April and June of 2001 remain unchanged from budget act projections.

c) Final payments have been increased by $221.0 million over budget plan estimates due to the strength of 2000 estimated payments. Historically, higher estimated payments have equaled higher final payments. Therefore, since estimated payments are forecasted to be higher than budget plan estimates, final payments due in April 2001 have been adjusted upward.

d) Historically refunds have been approximately 11% to 12% of total collections. Therefore, since collections are anticipated to be higher by $388 million, a corresponding adjustment has been made to refunds.

(2) The **sales and use tax** estimate is up $76.8 million above budget plan estimates. The revised estimate reflects the continuation of strong consumer demand as exhibited in the first part of this fiscal year.

(3) The **corporation tax** estimate is up $57.1 million above budget plan estimates. The revised estimate reflects stronger than anticipated collections at the end of FY 00 (after the revised FY 01 estimates had been forecasted) and year-to-date collections in FY 01. In recent years data suggests that corporations tend to overstate their final liability (not taking into account changes in the rate and past years' actual liability) therefore resulting in higher collections with greater refunds occurring in the following fiscal year.

(4) Federal grants are up by $140.5 million. This increase is primarily due to two factors: a) an increase in expenditures for Medicaid; and b) supplemental federal claims against state reimbursable expenditures. Actual federal reimbursement for state expenditures has exceeded previous estimates of what was expected to be claimed from the federal government.

Expenditures

Lapse/Deficiency

Expenditure requirements are estimated to be $124.7 million higher than budgeted due primarily to estimated gross deficiency appropriations of $159.2 million offset by $48.5 million in savings from allotment reductions. The deficiencies would be further reduced to $49.4 million, by transferring $61.3 million in unspent funds that would otherwise lapse. This would be accomplished through the transfer of excess funds in other agencies not experiencing a deficiency, to those agencies in need of additional funds. These transfers would be accomplished through the enactment of the Deficiency Bill. The major area requiring a deficiency appropriation is the Department of Social Services (DSS) ($113.9 million) and this is due to: (1) inflationary increases in hospital inpatient and home care services; (2) unanticipated interim rate changes for nursing home facilities having financial difficulty; (3) continued escalation of pharmacy costs with related cost savings measures not being fully implemented, (4) an increase in psychiatric reinsurance claims under the managed care program, and (5) Medicaid claims from FY 00 that had to be carried forward into FY 01 due to a lack of funds. Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of $5 million and Refunds of Escheated Property at $9 million. A further explanation of deficiency requirements can be found beginning on **page 8**. A summary of and explanations for General Fund lapsing appropriations can be found beginning on **page 13**.

Hiring Freeze and Allotment Reductions

The governor anticipates that the allotment reductions (announced 9/19/00) will save $48.5 million in the General Fund. It should be noted that these savings are intended to be in addition to the $30.6 million anticipated to be realized in the original budget plan from General Personal Services Reductions ($13.5 million), General Other Expenses Reductions ($11 million) and the Statewide Hiring Freeze ($6.1 million). The cap problem for FY 02 may be alleviated somewhat if some of these FY 01 savings result in budget cuts for FY 02.

Estimated Lapses

The original lapse savings of $120 million associated with unallocated lapses, Personal Services and Other Expenses holdbacks and the statewide hiring freeze is anticipated to be achieved by the end of the fiscal year. Given the $159.2 million level of gross deficiencies and the need to keep the level of deficiency appropriations within the $49.4 million allowed by the spending cap, it is anticipated that transfers totaling $61.3 million in unspent funds that would otherwise lapse will be necessary in addition to the $48.5 million in allotment reductions.

FY 01 General Fund Summary
as of November 8, 2000
(in millions)

	Budget Plan	Increases (Decreases)	Revised Estimates
Revenues			
Taxes	$ 8,104.9	$ 483.2	$ 8,588.1
Other Revenue	997.7	0.5	998.2
Other Sources	2,178.7	140.5	2,319.2
Total Revenue	**$ 11,281.3**	**$ 624.2**	**$ 11,905.5**
Appropriations			
Original Appropriations – Gross	$ 11,400.8	$ -	$ 11,400.8
Less:			
Estimated Budgeted Lapses	(120.0) [1]	61.3	(58.7)
Plus:			
Estimated Deficiency Appropriations	-	49.4 [2]	49.4
Estimated Adjudicated Claims	-	5.0	5.0
Estimated Refunds of Escheated Property	-	9.0	9.0
Total Estimated Expenditures	**$ 11,280.8**	**$ 124.7**	**$ 11,405.5**
Projected Surplus from Operations for FY 00	**$ 0.5**	**$ 499.5**	**$ 500.0**
Transfer to Fully Fund the Budget Reserve Fund [3]			**(30.0)**
Remaining Balance (Unappropriated Surplus) to Debt Retirement [4]			**$ 470.0**

[1] Includes $89.4 million in budgeted lapses, $24.5 million in General PS and OE reductions and $6.1 million from the statewide hiring freeze.

[2] Includes allotment reductions of $48.5 million and lapse transfers of $61.3 million, which all combine to eliminate the $159.2 million gross deficiency as follows:

Gross Deficiency	$159.2
Amount of Additional Appropriations Limited by Spending Cap	-49.4
Unmet Deficiency Needs Requiring Additional Transfers	$109.8
Transfers of Savings from Allotment Reductions	-48.5
Transfers of Unspent Funds that Would Otherwise Lapse	-61.3
Balance of Deficiencies	$0.0

[3] This $30 million addition would increase the amount in the Budget Reserve Fund (BRF) from $564 million to $594 million. Figure represents an approximation only and assumes a 5% increase in the FY 02 budget over FY 01. This would keep the BRF at the statutory limit of 5% of the net General Fund estimated appropriations for FY 02.

[4] The remaining balance (unappropriated surplus) will be used for debt retirement in accordance with the constitutional amendment adopted November 25, 1992, unless a declaration is issued by the governor recommending appropriations by the General Assembly, and approved by at least a three-fifths majority in each house.

FY 01 General Fund Revenue
as of November 8, 2000
(in thousands)

	Budget Plan Growth Rate % [1]	Budget Plan FY 01 Estimate	OFA Over/(Under) Budget Plan	OFA Estimate Growth Rate % [1]	OFA Estimate FY 01 Estimate
Taxes					
Personal Income	5.1	$4,218,000	$388,000	9.3	$4,606,000
Sales and Use	5.7	3,116,700	76,800	6.6	3,193,500
Corporations	4.2	512,900	57,100	4.8	570,000
Inheritance and Estate	3.9	241,400	(14,400)	(2.0)	227,000
Public Service Corporations	2.0	173,000	(9,000)	(1.0)	164,000
Insurance Companies	5.1	198,400	5,000	4.1	203,400
Cigarettes	(2.5)	116,200	3,000	(2.5)	119,200
Oil Companies	(8.0)	39,200	8,900	(2.0)	48,100
Real Estate Conveyance	2.0	112,200	0	(2.1)	112,200
Alcoholic Beverages	0.0	40,000	1,000	0.4	41,000
Miscellaneous	4.0	42,700	0	8.5	42,700
Admissions, Dues and Cabaret	2.5	24,000	0	(0.1)	24,000
Total Taxes		**$8,834,700**	**$516,400**		**$9,351,100**
Refunds of Taxes		(729,800)	(33,200)		(763,000)
Net General Fund Taxes		**$8,104,900**	**$483,200**		**$8,588,100**
Other Revenue					
Transfer Special Revenue		$265,200	$0		$265,200
Indian Gaming Payments		336,000	0		336,000
Licenses, Permits and Fees		121,800	4,200		126,000
Sales of Commodities and Services		32,000	3,000		35,000
Rentals, Fines and Escheats		41,100	2,300		43,400
Investment Income		68,000	(6,000)		62,000
Miscellaneous		133,600	(3,000)		130,600
Total Other Revenue		**$997,700**	**$500**		**$998,200**
Other Sources					
Federal Grants		$2,122,300	$140,500		$2,262,800
Transfer from Tob. Settlement Fund		138,800	0		138,800
Transfer to Other Funds		(82,400)	0		(82,400)
Total - Other Sources		**$2,178,700**	**$140,500**		**$2,319,200**
Total Revenue		**$11,281,300**	**$624,200**		**$11,905,500**

[1] Tax growth rates reflect adjustments for rate and base changes

FY 01 Projected General Fund Deficiencies

Department of Mental Retardation

OPM *Gross Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(2,300,000)	**$(2,300,000)**	**$7,133,043**	**$4,833,043**

The Department of Mental Retardation has a projected gross deficiency of $2.3 million in the Other Expenses account, which represents .35% of the department's original FY 01 appropriation. This assumes that a Personal Services holdback of $3 million, an Other Expenses holdback of $.8 million and allotment reductions totaling $3.3 million in various accounts are not released. If the holdbacks and allotment reductions are released and made available via FAC transfer, a net surplus of $4.8 million would result.

It should be noted that in FY 99 the Other Expenses account received a $1.9 million FAC transfer and in FY 00 the account received $.8 million in deficiency funding. Furthermore, from FY 99 to FY 01 estimated costs have increased by $1.48 million (7% growth). Increased and ongoing costs in the Other Expenses account in FY 01 in various areas have attributed to the estimated shortfall. Renovations at the Gray Cottage in Meriden are estimated at $453,630 in the General Repair category. Attorney Fees and Non-Professional Services (expert witness) costs continue as a result of litigation. Repair Materials (37% growth) and Motor Vehicle Supplies (17% growth) also reflect an increase from FY 00.

Funding of $1.2 million was provided in FY 00 for computer and network costs associated with training, maintenance and equipment hardware. Due to the delay in implementation of the system in FY 00 and use of those funds to support unbudgeted inflationary costs in the same year, the current estimates for FY 01 include the system related costs. In addition, costs resulting from Diversity Training ($132,500) and an anticipated 150 abuse and neglect registry hearings ($70,750) for individuals terminated or separated from employment because of substantiated abuse or neglect of a department client, have also contributed to the estimated shortfall.

Department of Mental Health and Addiction Services

OPM *Gross Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(15,200,000)	**$(16,138,846)**	**$8,316,525**	**$(7,822,321)**

The Department of Mental Health and Addiction Services has a projected gross deficiency of $16.1 million, which represents 4.6% of the original FY 01 appropriation. This assumes that a Personal Services holdback of $2.3 million, an Other Expenses holdback of $1.1 million and $1.6 million allotment reductions from various accounts are not released. The department is also expected to lapse $3.3 million in various accounts. If the holdbacks and allotment reductions are released and the other unspent funding is made available via FAC transfer, an estimated net deficiency of $7.8 million would result.

This deficiency is primarily due to increased costs in the Personal Services ($6.1 million), Other Expenses ($2.6 million), and General Assistance ($7.2 million) accounts. The Personal Services shortfall arises from the cost of the new Dutcher ward at Connecticut Valley Hospital ($2.1 million) as well as higher than anticipated expenditures for physician on call pay and overtime costs due to slow position refills. The Other Expenses shortfall can be largely attributed to increased natural gas costs for CVH ($1 million), moving costs for the Bridgeport center ($.5 million), as well as the costs associated with the Dutcher ward.

The General Assistance deficiency is due to an increase in GA eligible clients, with resulting increases in service and contractual administrative costs. An unbudgeted rate increase for partial hospital programs at freestanding psychiatric hospitals, implemented at the direction of the Office of Policy and Management, also contributes to the anticipated GA deficiency. It should be noted that the GA deficiency may be partially offset as a result of the retroactive recoupment of claims for Medicaid eligible clients.

Department of Social Services

OPM *Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(131,700,000)	$(113,875,676)	$27,631,860	$(86,243,816)

The Department of Social Services has a projected deficiency of $113.9 million, which represents 3.3% of the original FY 01 appropriation. This assumes that a Personal Services holdback of $1.2 million, an Other Expenses holdback of $1.6 million and $8.3 million allotment reductions under various accounts are not released. The department is also expected to lapse $16.6 million in several accounts. If the holdbacks and allotment reductions are released and the other unspent funding is made available via FAC transfer, an estimated net deficiency of $86.2 million would result. The majority of the projected shortfalls occur in four programs: Medicaid, ConnPACE, State Administered General Assistance (SAGA) and Temporary Family Assistance (TFA).

Medicaid - Medicaid expenditures are estimated to be $84.8 million greater than appropriated for FY 01, based upon 3 months of actual and 9 months of projected data. This represents 3.7 percent of the $2.3 billion account for long-term care and health services.

Five areas of health care spending are contributing to the projected deficiency in the Medicaid account for FY 01. Those areas and the projected amount over budget are as follows: 1) hospital outpatient - $16 million; 2) pharmacy - $20.4 million; 3) home care - $15.6 million; 4) psychiatric reinsurance claims under the managed care program - $10 million; and 5) hardship rate increase for nursing homes - $15.2 million. In addition to these areas of higher spending, an estimated $14.8 million in claims from FY 00 were carried forward into FY 01 for payment. This totals $92 million in expenditures over budget. This is partially offset by $7.2 million in net under spending in a variety of other service categories.

Expenditure increases at this point in the fiscal year are due primarily to inflationary increases in costs that are greater than forecasted, particularly in the areas of hospital inpatient and home care services. The expenditure increases in nursing homes are due to unanticipated interim rate changes for facilities having financial difficulty. It should be noted that there are 37 nursing homes in receivership at this time and that there is an effort by the department to avoid financial instability by providing rate relief.

Pharmacy costs continue to rise and the cost savings initiatives imposed by the legislature have not yet been fully implemented. If implementation is successful, there may be a reduction in the projected deficiency in this area of service.

Psychiatric reinsurance claims were budgeted at $15 million for FY 01. There is an indication that more claims than anticipated will be received by the state resulting in a $10 million shortfall. The department provides reinsurance to managed care organizations that cover TANF and DCF clients. Claims that exceed a certain amount are covered by the state so that there will not be an interruption in mental health services provided to these clients. This became part of the state contract with the managed care organizations in the previous fiscal year. With only one year of experience, it is difficult to estimate the level of claims that will become eligible for reinsurance and the cost associated with those claims.

Finally, Medicaid claims from FY 00 had to be carried into FY 01 due to a lack of funds. While the legislature did provide for an additional $5 million at the end of the 2000 session, this was not enough to fully meet the requirements of Medicaid in FY 00.

ConnPACE - A deficiency of $13.7 million is projected for the ConnPACE program. This shortfall is primarily attributable to an unanticipated increase in enrolment due to changes in Medicare coverage. Certain Medicare HMOs will withdraw from the program at the end of 2000, leaving 51,185 Connecticut residents to decide whether to join another HMO or return to original fee-for-service Medicare. Many of these clients will find themselves without adequate pharmaceutical coverage on January 1, 2001. The Department of Social Services is engaging in an outreach effort to notify seniors about their options; ConnPACE enrolment for income eligible persons being one alternative. A projected 12,500 individuals will enroll in ConnPACE, contributing significantly to its estimated deficiency. Additional financial pressure continues to be experienced due to the high rate of growth of pharmaceutical costs, which are increasing at 15 - 20% annually.

State Administered General Assistance – Based on the first three months of expenditure data, the SAGA program has a projected deficiency of $9.6 million, which represents 11.3% of the program's original appropriation. The SAGA program provides both cash and medical assistance to needy clients. The projected shortfall arises from the medical assistance portion of the program, which has seen continued higher than anticipated caseloads, as well as increased medical inflationary pressures that have also lead to the projected deficiencies in the Medicaid and ConnPACE accounts.

Temporary Family Assistance – The TFA program currently has a $5 million projected shortfall for FY01, which represents 3.6% of the program's original appropriation. Since the passage of Connecticut's welfare reform efforts in 1996, this program's caseload has steadily declined from an average monthly caseload of over 60,000. Although this decline has continued through the first three months of the fiscal year, it has done so at a slower than projected pace. The FY 01 appropriation assumed an average monthly caseload of 26,083. However, OFA currently projects an average monthly caseload of over 27,500. A lower than projected cost per case in the first three months has somewhat mitigated the effects of this higher caseload.

Offsetting lapses totaling $16.6 million are available primarily within the following DSS accounts to offset the above deficiencies.

Child Care – The combined child care service accounts are expected to have $11.6 million unspent (8.5% of the original FY 01 appropriation) due to lower than budgeted caseload and a slightly lower cost per case. The FY 01 appropriation was based on an average monthly caseload of 18,850 cases, however the actual caseload is 2,114 cases below the budgeted level (or 11.2% fewer cases). Additionally, the average monthly cost per case was budgeted at $600 per case, yet the actual cost per case is $567 (5.5% below budgeted costs). The anticipated unspent funds include $3.78 million that is part of the Governor's allotment reductions.

Supplemental Assistance – The Supplemental Assistance Programs (Aid to the Disabled, Aid to the Blind, Old Age Assistance) have a combined projected lapse of $4.9 million. This is due primarily to lower than budgeted caseloads for Aid to the Disabled (800 fewer average cases per month) and Old Age Assistance (150 fewer average cases per month). In addition, the January 2001 Social Security Cost of Living increase is expected to be 3.5%, higher than was anticipated in the budget. As any such federal increases reduce the state's monthly payments under these programs, a lower than budgeted cost per case is expected

Board of Education and Services for the Blind

OPM *Gross Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(1,700,000)	**$(0)**	**$0**	**$(0)**

The Office of Policy and Management (OPM) is projecting a gross deficiency of $1.7 million for the Board of Education and Services for the Blind (BESB), which represents 11.8% of the original FY 01 appropriation. This assumes that a Personal Services holdback of $44,147, an Other Expenses holdback of $54,154 and an allotment reduction of $7,181 are not released. If the holdbacks and allotment reduction were released, an estimated net deficiency of $1.59 million would result, according to OPM.

Most of the deficiency, $1,220,000, would occur in Personal Services with the remainder of $480,000 projected in Other Expenses. These amounts represent 31% and 33% respectively, of the original FY 01 appropriation in these accounts. The requested deficiency in BESB appears to be related to agency reorganization and spending on data processing improvements and consultants and additions of data processing personnel as well as the loss of $200,000 in federal funding. Pending the receipt of details from the agency, OFA is currently unable to project the level of deficiency funding needed.

Department of Children and Families

OPM *Gross Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(17,500,000)	**$(21,078,308)**	**$5,903,466**	**$(15,174,842)**

The Department of Children and Families has a projected gross deficiency of $21.1 million, which represents 4.5% of its original FY 01 appropriation of $464.5 million. This assumes that a Personal Services holdback of $2.1 million, an Other Expenses holdback of $0.9 million and allotment reductions, totaling $0.6 million across various accounts, are not released. The department is also expected to lapse $2.4 million in various accounts. If the holdbacks and allotment reductions are released and the other unspent funding is made available via FAC transfer, an estimated net deficiency of $15.1 million would result.

Contributing to the gross deficiency are shortfalls of:

> $2.1 million (1.1% of the original budget) in Personal Services, primarily attributable to the agency's inability to meet the programmed holdback while maintaining compliance with court

ordered staffing patterns, as well as unexpected costs incurred to staff a temporary 20-bed juvenile detention facility on the grounds of Long Lane School.

$3.2 million (13.2% of the original budget) in Other Expenses, primarily attributable to unexpected costs incurred to support the new juvenile detention facility, as well as costs of relocating several regional offices. The moves were originally planned to take place in FY 00, but were delayed to the present year.

$1.4 million (39% of the original budget) in the No Nexus Special Education account to reflect revised caseload estimates. Expenditures are determined by per diem billings and fluctuate with the number of students in private residential placement. This shortfall reflects a growth in the out-of-home residential population, as described below; and

$13.8 million (6.9% of the original budget) in board and care costs based on current caseload and cost trends. Budgeted funds anticipated average monthly expenditures for the Board and Care for Children – Adoption account of $2.1 million. Current projections indicate that expenditures will average $2.5 million, leading to an anticipated shortfall of $4.8 million. This is due to an unexpected increase (of approximately 600) in the number of children entering adoptive and guardianship placements. As of October, some 3,200 children were in subsidized adoption placement while 464 children were in subsidized guardianship situations. These numbers are anticipated to grow by another 300 before the end of the fiscal year. Additionally, a shortfall of approximately $9 million is projected for the Board and Care for Children – Residential account. This is primarily attributable to an estimated additional 140 children over budgeted in privately operated facilities. As of October a total of 1,368 children were in residential treatment and group home settings.

Total Projected General Fund Deficiencies:

OPM ***Deficiency***	**OFA** ***Major Deficiencies***	**Less: Available Funds**	**OFA Net (Deficiency)/ Surplus**
$(168,400,000)	**$(153,392,830)***	**$48,984,894****	**$(104,407,936)**

*OFA gross deficiencies actually total $159.2 million; however, $5.8 million of this figure will be covered by other lapsing amounts that exist within the affected agencies. Amount shown in OFA November 8, 2000 projections on the General Fund Summary schedule is $49.4 million, or $109.8 million lower than the $159.2 million gross deficiency amount, in order to indicate the maximum net deficiency level which can be appropriated and allow the budget to remain under the spending cap. A corresponding reduction in the lapse has been reflected on the General Fund Summary schedule as well.

**Includes: PS/OE Holdbacks, Allotment Reductions and other projected account balances.

Summary of General Fund Lapsing Appropriations for FY 01

Agency		Amount (in millions)
Status of Budgeted Lapses:		
Office of Workforce Competitiveness	$ 4.2	
Department of Labor	6.5	
Department of Education	2.0	
Department of Correction	1.9	
Debt Service	26.0	
Total - Significant Identified Lapsing Appropriations	$ 40.6	
Other Identified Lapses (less than $1 million each)	12.1	
Unidentified Lapses	36.7	
Subtotal		$ 89.4
General Personal Services and Other Expenses Reductions:		
Personal Services Holdbacks	$ 13.5	
Other Expenses Holdbacks	11.0	
Subtotal		24.5
Statewide Hiring Freeze		6.1
Total Projected Lapses		$ 120.0
Allotment Reductions		48.5
Total Projected Lapses / Reductions		$ 168.5
To Be Transferred to Cover Deficiencies (requires General Assembly approval)		(109.8)
Total Projected Remaining Lapses		**$ 58.7**

FY 01 Potential Significant General Fund Lapsing Appropriations

Agency / Explanation	Lapsing Amount

Office of Workforce Competitiveness **$4,200,000**

An amount of approximately $4.2 million could be lapsed by the Office of Workforce Competitiveness in the CETC workforce program for FY 01. The office has not expended any funds from this account in FY 00 or the first quarter of FY 01. An amount of $200,000 is anticipated to lapse in the Personal Services Account.

Department of Labor **$6,500,000**

OFA is projecting a lapse of approximately $6.5 million that represents 9.5% of the department's available appropriation of $68.5 million. The Welfare to Work program will lapse about $4.9 million of its $9.2 million available appropriation. During the first quarter of FY 01, approximately $.85 million was expended for Welfare to Work. The Jobs First program will lapse about $1.1 million of its $16.1 million available appropriation. An amount of $1.4 million was expended during the first quarter of FY 01. An amount of $.15 million may be lapsed from the $.4 million available appropriation for the Individual Development Accounts in FY 01. This program is new and regulations must be adopted before the administration of the program can begin. Funds were not expended for this program during the first quarter of FY 01. An amount of $250,000 may be lapsed from the $.5 million available appropriation for the Job Funnels program. This program's progress will depend upon construction progress associated with planned projects in Hartford.

Department of Education **$2,000,000**

An approximate $2.0 million is anticipated to lapse within the Department of Education. This amounts to approximately 0.1% of the agency's total appropriation. The net lapse is a combination of two lapses and one deficiency in grant programs. The major grants which contribute to this figure are the School Transportation grant with an anticipated $0.5 million deficiency and the Adult Education and ECS grants with lapses of approximately $0.5 million and $2.0 million respectively. The variations in the School Transportation and Adult Education grants are due to local expenditures being higher or lower respectively than originally anticipated. The variation in the ECS grant is the result of prior year adjustments mostly due to changes in student counts through agency audits.

Department of Correction **$1,900,000**

Although it is early in the fiscal year, the inmate population is below what was anticipated and below what the $500.4 million FY 01 budget was based on. The Office of Policy and Management has also acknowledged this by reducing the agency's budget by more than $9.1 million, in addition to the original holdback of more than $6.1 million. Due to what currently appears to be a stabilization of the population, it is possible that the department will be able to achieve savings through minimizing overtime and allowing positions to remain vacant. The potential lapse of $1.9 million represents .4% of the agency's total appropriation.

Agency / Explanation	Lapsing Amount

Debt Service **$26,037,722**

The projected $26 million lapse in debt service is the result of four factors. First, approximately $16.2 million will lapse as a result of the use of a total of $296.9 million in FY 00 surplus to pay principal and interest for school construction grants-in-aid to municipalities in FY 01. Since these funds replace General Obligation bonds that would otherwise have been issued in FY 01, the saving in interest cost is approximately $8.9 million. An additional $7.3 million, which was appropriated by the General Assembly in anticipation of an increase in bonding for school construction, will lapse because it is no longer necessary.

Second, approximately $5.6 million will lapse because of changes in the Spring 2000 issuance schedule. The General Assembly added $8.25 million to the debt service appropriation in anticipation of a $75 million increase in the bond issue scheduled for April 2000. Of the $8.25 million, $5.6 million will lapse because the actual issue in June 2000 was $40 million less than anticipated and the interest rate was 5.32% rather than the budgeted 6%.

The final two factors are a $3.4 million lapse due to an issuance premium for the June 2000 bond issue, and a $0.8 million lapse for UConn 2000 debt service due to a lower than anticipated interest rate (5.42% versus 6.5%) at which the March 2000 bonds were issued.

The $26 million lapse figure assumes an additional $1 million will be transferred from the debt service account to the CHEFA Day Care Security account if a commitment of matching funds for the rehabilitation or relocation of existing childcare facilities occurs.

Allotment Reductions and Holdbacks **$48,500,000**

The governor anticipates that the allotment reductions (announced September 19, 2000) will save $48.5 million in the General Fund (which includes his original General Fund reductions of $37.2 million plus his subsequent higher education savings proposals of $8.8 million and other revisions of $1.5 million). It should be noted that these savings are intended to be in addition to the $24.5 million anticipated to be realized in the original budget plan from holdbacks, which include General Personal Services Reductions ($13.5 million) and General Other Expenses Reductions ($11 million). The potential cap problem for FY 02 may be helped if some of these FY 01 savings result in budget cuts for FY 02.

II. Transportation Fund

Our projections for the fiscal year ending June 30, 2001 indicate the **potential surplus from operations, based on revised estimated revenues, has grown by $3.9 million** from the $39.6 million originally budgeted **to $43.5 million** (which represents 5.3% of the original budget). The balance in the fund at the start of FY 01 is $90.2 million, which includes the $20 million that was a minimum required balance under prior law. PA 00-170 repealed the provisions under 13b-68(b) of the general statutes, which required that amounts in excess of $20 million be used for debt retirement. Thus, the cumulative surplus as of June 30, 2001 is projected to be $133.7 million. It is relatively early in the fiscal year. The severity of the winter season, implementation of the safety inspection program by the Department of Motor Vehicles (DMV), and rising fuel costs could affect the outcome.

Revenues

Transportation Fund revenue is estimated at $858 million, which is an increase of $3.9 million over budget act estimates. Increases in Motor Vehicle Receipts ($2.5 million) and in Licenses, Permits and Fees ($2.0 million) are due to a combination of higher than anticipated FY 00 collections and year-to-date FY 01 collections. Please refer to the FY 01 Transportation Fund Revenue Schedule on **page 19**.

Expenditures

FY 01 estimated expenditures for the Transportation Fund are projected to be $814.5 million (unchanged from original appropriations). Thus, the estimated lapse savings of $20 million included in the budget act are anticipated to be achieved. (Please refer to the FY 01 Transportation Fund Summary on **page 18**).

Currently, a projected debt service lapse of $3.2 million is anticipated. The lapse is attributed to the following two factors:

- the difference between the actual interest rate of 5.04% for bonds issued in July, 2000 and the budgeted interest rate of 6.25%, $1.7 million .
- the use of funds remaining in the account designated for Transportation Fund debt reduction to pay FY 01 debt service, $1.5 million.

The remaining lapse totaling $16.8 million is expected to be achieved throughout the various Transportation Fund accounts. However, three factors could affect expenditures. These are:

- the severity of the winter season
- the announcement made by Governor Rowland to terminate within 30 days the $2.2 million a year contract with Envirotest to perform safety inspections. Options available to the Department of Motor Vehicles are to have employees conduct safety inspections or to contract out to private garages.
- the costs of diesel and heating oil. A significant increase in diesel fuel could affect the Bus Operations program. In addition, the Department of Transportation (DOT) maintains 129 workplaces and 600 buildings which are partially heated. An increase in heating oil could affect the DOT's operating budget.

Allotment reductions within the Department of Transportation ($2,575,317) and the Department of Motor Vehicles ($27,164) total $2.6 million. The ultimate disposition of these savings, which are anticipated to be in addition to the $20 million Transportation Fund lapse, is unclear at this time. The savings could allow for a reduction in FY 01 appropriations from the Transportation Fund, and an increase in FY 01 General Fund appropriations (to meet deficiency needs), while keeping the overall budget within the spending cap.

FY 01 Transportation Fund Summary
as of November 8, 2000
(In Millions)

	Budget Plan	Increases (Decreases)	Revised Estimates
Revenues			
Taxes	$ 513.2	$ (0.6)	$ 512.6
Other Revenue	340.9	4.5	345.4
Total Estimated Revenues	$ 854.1	$ 3.9	$ 858.0
Appropriations			
Original Appropriations - Gross	$ 834.5	$ 0.0	$ 834.5
Less: Estimated Budgeted Lapses	(20.0)	0.0	(20.0)
Total Estimated Expenditures	$ 814.5	$ 0.0	$ 814.5
Estimated Surplus from Operations for FY 01	**$ 39.6**	**$ 3.9**	**$ 43.5**
Plus: Cumulative Surplus as of June 30, 2000 [1]	**90.2**	**0.0**	**90.2**
Projected Fund Balance as of June 30, 2001 [2]	**$ 129.8**	**$ 3.9**	**$ 133.7**

[1] The General Assembly's budget plan estimated a Transportation Fund balance of $76.9 million for FY 00. The unaudited final balance subsequently grew to $90.2 million.

[2] Section 13b-68(b) of the general statutes previously required that amounts in excess of $20 million be used by the State Treasurer to reduce the future cost of Special Tax Obligation (STO) debt service. However, Section 13 of PA 00-170 repealed the aforementioned provisions effective July 1, 2000. Thus, no surplus funds will be designated for debt retirement unless specifically mandated in subsequent legislation.

FY 01 Transportation Fund Revenues
as November 8, 2000
(in thousands)

	FY 01 Budget Plan	OFA Over/(Under) Budget Plan	FY 01 OFA Estimate
TAXES			
Motor Fuels Tax	$417,500	$0	$417,500
Petroleum Products Tax	46,000	0	46,000
Sales Tax - DMV	55,200	0	55,200
Refunds of Taxes	(5,500)	(600)	(6,100)
Total - Taxes Less Refunds	**$513,200**	**($600)**	**$512,600**
OTHER SOURCES			
Motor Vehicle Receipts	$190,900	$2,500	$193,400
Licences, Permits, and Fees	113,000	2,000	115,000
Interest Income	37,000	0	37,000
Federal Grants (FTA)	3,000	0	3,000
Transfer to Conservation Fund	(3,000)	0	(3,000)
Total -Other Sources	**$340,900**	**$4,500**	**$345,400**
Total Revenue	**$854,100**	**$3,900**	**$858,000**